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DATA SUPPORTING THE ENVIRONMENTAL LIABILITY  
LINE ITEM ON THE FY 1999 DOD FINANCIAL STATEMENTS

Report No. D-2000-168

July 27, 2000

Office of the Inspector General  
Department of Defense

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### **Acronyms**

CTC

DUSD(ES)

Cost-to-Complete

Deputy Under Secretary of Defense (Environmental  
Security)



INSPECTOR GENERAL  
DEPARTMENT OF DEFENSE  
400 ARMY NAVY DRIVE  
ARLINGTON, VIRGINIA 22202

July 27, 2000

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)  
DEPUTY UNDER SECRETARY OF DEFENSE  
(ENVIRONMENTAL SECURITY)  
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING  
SERVICE

SUBJECT: Audit Report on Data Supporting the Environmental Liability Line Item on  
the FY 1999 DoD Financial Statements (Report No. D-2000-168)

We are providing this report for your information and use. We considered management comments on a draft of this report when preparing the final report.

Comments on the draft of this report conformed to the requirements of DoD Directive 7650.3 and left no unresolved issues. Therefore, no additional comments are required.

We appreciate the courtesies extended to the audit staff. For additional information on this report, please contact Mr. David F. Vincent at (703) 604-9109 (DSN 664-9109) (dvincent@dodig.osd.mil) or Mr. Thomas J. Winter at (703) 604-9134 (DSN 664-9134) (twinter@dodig.osd.mil). We will provide a formal briefing on the results of the audit, if desired. See Appendix B for the report distribution.

A handwritten signature in cursive script, reading "David K. Steensma", is positioned above the typed name.

David K. Steensma  
Deputy Assistant Inspector General  
for Auditing

## Office of the Inspector General, DoD

Report No. D-2000-168  
(Project No. D1999FH-0082)

July 27, 2000

### Data Supporting the Environmental Liability Line Item on the FY 1999 DoD Financial Statements

#### Executive Summary

**Introduction.** We performed this audit in response to the Chief Financial Officers Act of 1990, as amended by the Federal Financial Management Act of 1994, which requires DoD and other Government agencies to prepare consolidated financial statements. This audit supports our audit of the FY 1999 DoD Agency-Wide financial statements and future audits of financial statements. The FY 1999 DoD Agency-Wide Balance Sheet is part of the DoD consolidated financial statements and includes a line item for environmental liabilities. Environmental liabilities include estimated amounts for future cleanup of environmental pollution at present and former DoD sites. The FY 1999 balance sheet reported an environmental liability of \$79.7 billion for future cleanup of sites at present and former DoD sites. The amount reported was an increase of \$45.5 billion over the \$34.2 billion reported for FY 1998.

**Objectives.** The objective was to evaluate the reliability and completeness of the data used to calculate the DoD environmental liability for FY 1999. We also reviewed the adequacy of the management control program as it applied to the objective.

**Results.** The \$79.7 billion reported for environmental liability on the FY 1999 DoD Agency-Wide Balance Sheet was not complete or supported by underlying data, and DoD organizations did not document cost-to-complete estimates. For example, estimates for 30 out of 46 former DoD sites were inadequately documented, and more than 50 percent of Air Force estimates were unsupported. Also, liabilities for weapon system disposal were not reported. Although the Military Departments sent implementing instructions to field activities, they were not received in time to be incorporated into the FY 1999 environmental estimates, and additional guidance is needed. Estimates did not include the site's future use, establish a standard level of cleanup, or document any deviations from a standard. Also, the full cost estimate, including funded and unfunded amounts, was not recorded.

The \$79.7 billion included \$20.7 billion for weapon system disposal, including \$11.5 billion for nuclear-powered submarines and ships, and \$34 billion for training range cleanup. Reporting the amounts for weapon system disposal and disposal of unexploded ordnance and ammunition would present the environmental liability more

accurately. As a result, the environmental liability line item in the FY 1999 DoD Agency-Wide Balance Sheet was unverifiable and likely to be materially misstated. See Appendix A for details on the management control program.

**Summary of Recommendations.** We recommend that the Deputy Under Secretary of Defense (Environmental Security) revise the supplemental guidance to require that environmental engineers consider the extent of cleanup and the planned use of the site when preparing estimates of cleanup costs. We also recommend that the Under Secretary of Defense (Comptroller) revise DoD Regulation 7000.14-R, the "DoD Financial Management Regulation," to require DoD organizations to report the full amount of cost estimates, whether funded or unfunded.

**Management Comments.** The Deputy Under Secretary of Defense (Environmental Security) agreed to update the guidance as recommended. The Under Secretary of Defense (Comptroller) stated that DoD Regulation 7000.14-R already requires that cost estimates be prepared without regard to availability of funds, and that recommendations were made to the Deputy Under Secretary of Defense (Environmental Security) to update Section G of the guidance, "Management Guidance for the Defense Environmental Restoration Program."

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## Background

**Reporting Requirements.** The Chief Financial Officers Act of 1990 (the Act) requires Federal organizations to prepare annual audited financial statements. Inspectors General are required to audit all financial statements prepared under the Act. The Act, as amended by the Federal Financial Management Act of 1994, requires DoD and other Government agencies to prepare agency-wide financial statements.

**Statutory Requirements for Environmental Cleanup.** The Comprehensive Environmental Response, Compensation, and Liability Act (Liability Act) of 1980, as amended by the Superfund Amendments and Reauthorization Act of 1986, established a comprehensive framework to identify, investigate, and clean up releases of hazardous materials. The Liability Act provides statutory authority for cleanup of hazardous materials that could endanger public health, public welfare, or the environment. The Resource Conservation and Recovery Act of 1976, sections 6901 through 6992, title 42, United States Code, created a comprehensive Federal regulatory program for hazardous waste control.

**DoD Implementation of Liability Act.** The Deputy Under Secretary of Defense (Environmental Security) (DUSD[ES]) is responsible for environmental cleanup within DoD. The DoD Office of Environmental Cleanup, as part of the Office of the DUSD(ES), manages the Defense Environmental Restoration Program. The Army, the Navy, the Air Force, and the Defense Logistics Agency execute the cleanup work at present and former defense locations nationwide, for which about \$4.3 billion was budgeted for FY 1999.

**Liability for Environmental Cleanup.** DoD reported the liability for environmental cleanup in its financial statements. The FY 1999 DoD Agency-Wide financial statements reported an environmental liability of \$79.7 billion, representing the estimated cleanup cost for future years. The amount included \$22.8 billion for the Army, \$47.6 billion for the Navy, \$6.3 billion for the Air Force, and \$3 billion for the other Defense agencies. The amount is a significant increase over the \$34.2 billion reported in FY 1998.

## Objectives

The objective was to evaluate the reliability and completeness of the data used to calculate the DoD environmental liability for FY 1999. We also reviewed the adequacy of the management control program as it applied to the objective. The review of the management control program is discussed in Appendix A.



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## **Data Supporting the FY 1999 Environmental Liability**

The \$79.7 billion reported for environmental liabilities in the FY 1999 DoD Agency-Wide Balance Sheet was not complete or supported by underlying data. The amount was incomplete and unsupported because new criteria for reporting environmental liabilities were not fully implemented at all levels, the cleanup cost estimates were not adequately documented, consistent procedures were not used for cost estimates, and significant liabilities for weapon system disposal were not shown in the reported liability balance. As a result, the environmental liability line item in the FY 1999 DoD Agency-Wide Balance Sheet was unverifiable and likely to be materially misstated.

### **Reporting Criteria for Environmental Liabilities**

**Current Guidance.** In August 1999, the Under Secretary of Defense (Comptroller) issued chapters 13 and 14 (new chapters) of DoD Regulation 7000.14-R, the "DoD Financial Management Regulation," volume 4. Chapters 13 and 14 give guidance on reporting environmental and disposal liabilities. The new chapters are substantially consistent with Statement of Federal Financial Accounting Standards No. 5, "Accounting for Liabilities of the Federal Government," December 20, 1995. In August 1999, the DUSD(ES) issued guidance requiring that all cleanup cost estimates be documented and each DoD Component ensure that its computer models conform to DoD Instruction 5000.61, "DoD Modeling and Simulation Verification, Validation, and Accreditation," April 29, 1996.

DoD Instruction 5000.61 requires that DoD Components establish verification, validation, and accreditation policies and procedures for their models and simulations, and that they document the results of these procedures and make them available to other DoD Components. Verification is the process of determining that a model's implementation accurately represents the developer's concepts and specifications. Validation is the process of determining the degree to which a model accurately represents the real world from the perspective of the model's intended use. Accreditation is the official certification that a model or simulation is acceptable for use for a specific purpose.

### **Documentation**

Cost-to-complete (CTC) estimates are the source of the restoration portion of the environmental liability line item reported in the balance sheet. However, many of the estimates were not adequately documented, and the audit trail from estimates to the balance sheet was inadequate because reporting systems did not include all the amounts estimated.

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**Requirements for Audit Trails.** DoD Regulation 7000.14-R, the "DoD Financial Management Regulation," May 1993, chapter 3, states that accounting systems must have audit trails that allow transactions to be traced from initiation through processing to the financial statements. Transactions, including CTC estimates that support the environmental liability line item, must be adequately supported with pertinent documents and source records. DoD Regulation 7000.14-R, volume 4, chapter 8, "Financial Control of Liabilities," January 1995, also states that amounts recorded as liabilities must be supported by sufficient documentation to establish the basis for a claim against DoD.

**Army.** Audit trails were inadequate at Army environmental activities. The Army Audit Agency could not attest to the accuracy and completeness of the \$22.8 billion reported for FY 1999. For example, documentation for 30 out of 46 formerly used Defense sites did not support the reported estimates of cleanup costs.

**Navy.** Navy activities with environmental cleanup sites did not maintain adequate support for the cleanup cost estimates. The Naval Audit Service was unable to perform sufficient audit work to ascertain the accuracy and completeness of the reported environmental liability because data on the cleanup sites and documentation of a new version of the CTC model were not available in time to perform a review. As a result, the Naval Audit Service could not determine whether the \$47.1 billion of estimates for site cleanup was reasonable.

**Air Force.** Air Force installations could not fully support \$6.3 billion in CTC estimates. More than 50 percent of the estimates reviewed were not supported by documentation, and about 75 percent of the dollar value was unsupported. In addition, the Air Force database of sites requiring cleanup was neither accurate nor complete. The Air Force auditors also used engineers who determined that documentation was inadequate. As a result, the Air Force Audit Agency was unable to attest to the accuracy of the environmental liability line item on the FY 1999 Air Force General Fund financial statements.

**DoD Guidance.** The DUSD(ES) issued guidance on August 6, 1999, in response to the recommendations in Inspector General, DoD, Report No. 99-209, "Data Supporting the DoD Environmental Line Item Liability on the FY 1998 Financial Statements," July 9, 1999. The guidance requires DoD Components to document CTC estimates, including narrative that explains the basis of the estimate and gives the date prepared, the preparer's name, and evidence of supervisory approval. The guidance also requires that original estimates and changes in those estimates should be documented and available for review. The Military Departments need to create an adequate audit trail of cleanup cost estimates and subsequent changes. The Military Departments did not implement the August 6, 1999, guidance in time for the fiscal year ending September 30, 1999. We will review the documentation for estimates during our audit of environmental liabilities for FY 2000.

## **Estimates of Environmental Cleanup Costs**

In Inspector General, DoD, Report No. 99-209, we recommended that the DUSD(ES) implement guidance requiring DoD installations to use computer

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models that are accredited at the DoD level to generate CTC estimates, and to use the estimates to support the installations' total environmental liability. We also recommended that the guidance require documentation of the CTC estimates and any subsequent changes. In response to our recommendations, on August 6, 1999, the DUSD(ES) issued supplementary guidance for the Defense Environmental Restoration Program. The guidance was intended to ensure that the DoD Components use a consistent model for developing cost estimates and that an adequate audit trail is maintained to document the cost estimating procedures. The guidance states that each DoD Component is responsible for ensuring that its computer models conform to DoD Instruction 5000.61. The documentation must include a narrative that explains the basis of the estimate and gives the date prepared, the preparer's name, and evidence of supervisory approval. The guidance also stated that the original estimates and changes in those estimates should be documented and available for review.

The DoD Components did not implement the guidance in time to affect the FY 1999 financial statements, which was reflected in the lack of documentation for cleanup cost estimates. However, from November 1999 through March 2000, the Military Departments took action by issuing the supplemental guidance for their field activities. In our audit of environmental liabilities for FY 2000, we will determine whether the DoD Components have ensured that their computer models conform to DoD Instruction 5000.61 and that CTC estimates are adequately documented in accordance with the guidance from the DUSD(ES).

## **Liabilities for Weapon System Disposal**

The disposal liability reported for FY 1999 included about \$20.7 billion for weapon system disposal. However, that amount was likely to be inaccurate and incomplete. During FYs 1999 and 2000, we reported that major weapon system programs, such as the C/KC-135 Stratotanker aircraft, the Black Hawk helicopter, and the Grizzly mine-clearing vehicle, did not include estimated disposal costs in the life-cycle cost estimates for the eventual disposal of the weapon systems.

**Army.** DoD is required to destroy the weapon systems in its chemical munitions stockpile by April 29, 2007, in accordance with the 1986 DoD Authorization Act, subsequent amendments, and the Chemical Weapons Convention. The Army, as the Executive agent for DoD, manages the Chemical Demilitarization Program. For FY 1999, the reported liability was about \$8.9 billion.

**Navy.** In Inspector General, DoD, Report No. 99-209, we reported that the Navy did not include amounts for the disposal of its nuclear-powered submarines and ships because DoD financial guidance did not require those amounts to be reported. Subsequent changes in DoD Regulation 7000.14-R required the amounts to be reported, and the Navy complied. We estimated the liability to be between \$6.7 billion and \$13.2 billion, based on General Accounting Office estimates applied to our research on the number of nuclear-powered submarines and ships in the fleet. For FY 1999, the Navy took

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significant actions and reported \$11.5 billion for nuclear-powered submarine and ship disposal. The Navy estimate is within our estimated range for FY 1998, and is a reasonable estimate for FY 1999, based on our prior year evaluation, and reflects well on the Navy's commitment to fully report on its environmental liabilities.

**Air Force.** The Air Force did not include any amount for weapon system disposal liabilities. The General Accounting Office and the Inspector General, DoD, have reported that Air Force weapon systems will eventually have environmental and disposal costs that can be estimated. Because of the omission, the Air Force portion of the DoD environmental liability balance was understated. However, we were unable to quantify the value of the understatement.

## **Training Ranges**

DoD reported about \$34 billion as the liability for environmental cleanup of training ranges. Of that amount, the Navy reported \$30.7 billion for cleanup of its ranges. The Army and the Air Force reported about \$2.4 billion and \$0.8 billion, respectively. Final DoD guidance for reporting liabilities for the cleanup of training ranges is not expected to be published until at least October 2000. The reporting of those amounts represents a significant improvement over the FY 1998 financial statements, on which liabilities for cleanup of training ranges were not recognized or reported.

## **Extent of Site Cleanup**

Environmental engineers responsible for preparing estimates of site cleanup costs stated that the level of cleanup required is not always clear. For example, a site with a designated end use as a school or day-care center would require more extensive cleanup than would a site designated for heavy industrial use. The more extensive the cleanup, the more costly it will be. Therefore, environmental engineers should consider a site's future use when preparing an estimate of cleanup costs.

The DUSD(ES) supplemental guidance for preparing estimates of cleanup costs did not address the future use of a site. When a site's future use has not been determined, the estimate should be prepared to a predetermined standard. The standard could be a requirement established by the Environmental Protection Agency or a defined level or concentration of a pollutant. When an estimate is prepared, considering the future use of a site, environmental engineers should document any deviation from the standard to include the reason. DoD activities responsible for estimating environmental cleanup costs should specify the assumed level of cleanup used in their cost estimating methodologies.

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## Budget Considerations

Cleanup cost estimates that Army and Air Force environmental engineers prepared were influenced by budgetary concerns. When estimates were reviewed at the major command level, modifications were sometimes made to reflect budgetary considerations. For financial reporting purposes, the entire site cleanup cost must be accrued as a liability. Accordingly, Military Departments must report the full cost estimate in the environmental liability line item, and reflect funded and unfunded amounts in the footnotes. In addition, documentation must be maintained to support not only the environmental engineering estimates, but any modifications made to the estimates as the result of command review.

## Conclusion

Although the amount reported for environmental liabilities on the FY 1999 balance sheet includes some estimates for weapon system disposal, cleanup of training ranges, and chemical weapons disposal, the amount was not supported by underlying data and was not complete. The \$79.7 billion reported for the FY 1999 environmental liability was significantly more accurate than the \$34.2 billion reported for FY 1998. However, the reported environmental liability was incomplete and unsupported because DoD did not fully implement a comprehensive and reasonable set of procedures designed to:

- ensure reasonably accurate estimates of environmental cleanup costs and all weapon system disposal costs; and
- create an audit trail for the entire process.

As a result, the environmental liability reported for FY 1999 remained unreliable and unauditable. During FY 2000, however, the Military Departments will implement the guidance dated August 6, 1999, from the DUSD(ES), which requires that future cost estimates be fully documented. The action is responsive to the problem. However, additional guidance is needed to improve consistency and accuracy of estimates and to ensure that field-level personnel are implementing the guidance. Environmental engineers should include a cleanup site's future use in their cleanup cost estimate, establish a standard level of cleanup, and document any deviations from the standard. Additionally, the Military Departments should record the full cost estimate, including funded and unfunded amounts, for inclusion in the financial statements. In our audit of FY 2000 environmental liabilities, we will review documentation to test the implementation of the supplemental guidance.

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## **Recommendations, Management Comments, and Audit Response**

**1. We recommend that the Deputy Under Secretary of Defense (Environmental Security) amend the supplemental guidance to require that:**

**a. methodologies for estimating cleanup costs include the assumed level of cleanup and the future use of the sites;**

**b. a quantifiable standard level of cleanup be used to prepare estimates;**

**c. any deviations from the standard are documented, and supporting rationale given; and**

**d. the Military Departments implement the supplemental guidance.**

**Deputy Under Secretary of Defense (Environmental Security)**

**Comments.** The Deputy Under Secretary of Defense (Environmental Security) concurred with the recommendation and will update the "Management Guidance for the Defense Environmental Restoration Program" during Calendar Year 2000. The update will be in accordance with the audit recommendations

**2. We recommend that the Under Secretary of Defense (Comptroller) revise DoD Regulation 7000.14-R, "Financial Management Regulation," volume 4, chapters 13 and 14, August 1999, to require that the full amount of cost estimates for environmental cleanup be reported without regard to the availability of budgetary resources.**

**Under Secretary of Defense (Comptroller) Comments.** The Under Secretary of Defense (Comptroller) concurred with the recommendation, stating that the requirement to report the full cost estimate for environmental cleanup is already stated in DoD Regulation 7000.14-R, volume 4, chapters 13 and 14. The Under Secretary also provided recommended changes to the "Management Guidance for the Defense Environmental Restoration Program" to the Deputy Under Secretary of Defense (Environmental Security), to require that the full amount of the estimate be reported.

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## Appendix A. Audit Process

### Scope and Methodology

**Scope.** We reviewed the data supporting the \$79.7 billion environmental liability line item reported on the FY 1999 DoD Agency-Wide Balance Sheet. Specifically, we:

- evaluated updated guidance in DoD Regulation 7000.14-R on reporting environmental and disposal liabilities and guidance issued by the DUSD(ES) requiring documentation of environmental cleanup cost estimates;
- reviewed and directed the work of Army Audit Agency, Naval Audit Service, and Air Force Audit Agency auditors on the environmental liability line items of the Military Departments' financial statements; and
- determined the degree to which the reported environmental liability balance was supportable.

**Limitation to Scope.** We did not test the accuracy of the environmental restoration cost estimates because many of the estimates were undocumented and could not be reviewed for accuracy by comparing them to historical data from other cleanup efforts. The limitation in scope did not materially affect the audit results.

**Use of Computer-Processed Data.** We did not use computer-processed data to support the audit conclusions.

**DoD-wide Corporate-Level Government Performance and Results Act Coverage.** In response to the Government Performance and Results Act, the Secretary of Defense annually establishes DoD-wide corporate-level goals, subordinate performance goals, and performance measures. This report pertains to achievement of the following goal, subordinate performance goal, and performance measures.

- **FY 2001 DoD Subordinate Performance Goal 2.5:** Improve DoD financial and information management. (01-DoD-2.5)
- **FY 2001 Performance Measure 2.5.1:** Reduce the number of noncompliant accounting and finance systems. (01-DoD-2.5.1.)
- **FY 2001 Performance Measure 2.5.2:** Achieve unqualified opinions on financial statements. (01-DoD-2.5.2.)

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**DoD Functional Area Reform Goals.** Most major DoD functional areas have also established performance improvement reform objectives and goals. This report pertains to achievement of the following functional area objective and goal.

- **Financial Management Objective:** Strengthen internal controls.  
**Goal:** Improve compliance with the Federal Managers' Financial Integrity Act. (FM-5.3)

**General Accounting Office High-Risk Area.** The General Accounting Office has identified seven high-risk areas in DoD as of April 16, 1999. This report provides coverage of the Defense financial management high-risk area.

**Audit Type, Dates, and Standards.** We performed this financial-related audit from October 1999 through March 2000 in accordance with audit standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD. Accordingly, we included tests of management controls considered necessary.

**Contacts During the Audit.** We visited or contacted individuals and organizations within DoD. Further details are available on request.

## Management Control Program

DoD Directive 5010.38, "Management Control (MC) Program," August 26, 1996, and DoD Instruction 5010.40, "Management Control (MC) Program Procedures," August 28, 1996, require DoD managers to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of those controls.

**Scope of Review of the Management Control Program.** We reviewed the FY 1999 Annual Statements of Assurance of the Military Departments. We also reviewed the results of audits by the Army Audit Agency and the Air Force Audit Agency.

**Adequacy of Management Controls.** We identified material management control weaknesses for FY 1999, as defined by DoD Directive 5010.38. Although DoD guidance on accounting for environmental liabilities was published during FY 1999, policies and procedures were not implemented at all levels in time to ensure that cost estimates and changes for FY 1999 were adequately documented and that computerized cleanup cost estimates were adequate and were used as appropriate. However, during FY 2000, the Military Departments issued the supplemental DoD guidance that, if followed, will correct the material weaknesses and improve the accuracy and reliability of the environmental liability line item on the balance sheet in future years. Therefore, we are not making a recommendation to correct the material management control weakness. A copy of this report will be provided to the senior officials responsible for management controls in the Offices of the Under Secretary of Defense (Comptroller) and the DUSD(ES).



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**Adequacy of Management's Self Evaluation.** We reviewed management's self-evaluation program for the Military Departments. The FY 1999 Air Force Annual Statement of Assurance reported that management controls were not sufficient to ensure that contingent liabilities were properly identified and accurately reported in the FY 1999 Air Force General Fund financial statements. The target date for fixing management controls was changed from FY 1999 to "to be determined" because DoD Regulation 7000.14-R included new guidance on the treatment of environmental liabilities. The FY 1999 Navy Annual Statement of Assurance reported that the Navy did not accurately identify or adequately budget for legally mandated environmental projects because the management control system for budgeting environmental control projects was not adequate. The management control system for budgeting environmental projects is the same system the Navy uses for reporting installation environmental liabilities. The FY 1999 Army Annual Statement of Assurance noted that the Army pollution prevention program was not fully effective. The statement noted that policymaking is separate from funding, which creates an accountability issue in the environmental program. The results indicator for resolution is improved accounting for environmental costs and liabilities across all mission areas.

The Military Departments recognized that environmental liabilities were not being accurately reported, noted this condition in their Annual Statements of Assurance, and took action to report their environmental liabilities more accurately in the future. The actions taken, if fully implemented, will correct the weaknesses disclosed in the Military Departments' Annual Statements of Assurance.

## Prior Coverage

The General Accounting Office; the Inspector General, DoD; the Army Audit Agency; and the Air Force Audit Agency have issued audit reports related to environmental liabilities during the last 5 years. General Accounting Office unrestricted reports can be accessed on the Internet at [www.gao.gov](http://www.gao.gov). Inspector General, DoD, unrestricted reports can be accessed on the Internet at [www.dodig.osd.mil](http://www.dodig.osd.mil). Army Audit Agency unrestricted reports can be accessed on the Internet at [www.hqda.army.mil](http://www.hqda.army.mil). Air Force Audit Agency unrestricted reports can be accessed on the Internet at [www.afaaf.hq.af.mil](http://www.afaaf.hq.af.mil).

Inspector General, DoD, Report No. 99-209, "Data Supporting the Environmental Line Item Liability on the FY 1998 Financial Statements," July 9, 1999, also addresses issues concerning the FY 1999 financial statements.

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## **Appendix B. Report Distribution**

### **Office of the Secretary of Defense**

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Director for Accounting Policy  
Deputy Comptroller (Program/Budget)  
Deputy Under Secretary of Defense (Environmental Security)  
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### **Department of the Navy**

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Auditor General, Department of the Navy

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Director, Defense Logistics Agency  
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Inspector General, National Security Agency  
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House Committee on Appropriations  
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House Committee on Armed Services  
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Committee on Government Reform  
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Relations, Committee on Government Reform

# Under Secretary of Defense (Comptroller) Comments



UNDER SECRETARY OF DEFENSE  
1100 DEFENSE PENTAGON  
WASHINGTON, DC 20301-1100

JUN 2 2000

MEMORANDUM FOR DIRECTOR, FINANCE AND ACCOUNTING DIRECTORATE,  
OFFICE OF THE INSPECTOR GENERAL, DEPARTMENT OF  
DEFENSE

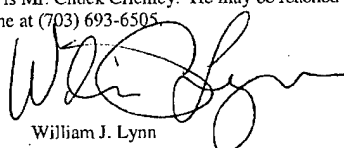
SUBJECT: Office of the Inspector General Draft Audit Report, "Data Supporting the  
Environmental Liability Line Item on the FY 1999 DoD Financial Statements"  
(Project No. D1999FH-0082) (formerly Project No. 9FH-2031)

This is in response to Recommendation 2 of the subject draft report. Specifically, the recommendation proposes that the Under Secretary of Defense (Comptroller) revise "Department of Defense Financial Management Regulation" ("DoDFMR") Volume 4, Chapters 13 and 14, to require that the full amount of cost estimates for environmental cleanup be reported without regard to the availability of budgetary resources.

The suggested requirement is already in the final sentence of the introductory paragraphs to "DoDFMR" Volume 4, Chapters 13 and 14. Further, this office has provided recommended changes to Section G of the document, "Management Guidance for the Defense Environmental Restoration Program," to the Office of the Deputy Under Secretary of Defense (Environmental Security). The Section G content on cost to complete estimate preparation would be revised to indicate that estimates will be made without regard to the availability of funds.

Thank you for the opportunity to comment on the draft report.

The point of contact for this matter is Mr. Chuck Crichley. He may be reached by e-mail: crichlec@osd.pentagon.mil or by telephone at (703) 693-6505.

  
William J. Lynn

## Deputy Under Secretary of Defense (Environmental Security) Comments



### OFFICE OF THE UNDER SECRETARY OF DEFENSE

3000 DEFENSE PENTAGON  
WASHINGTON DC 20301-3000

JUN 21 2000

MEMORANDUM FOR DOD INSPECTOR GENERAL (FINANCE AND ACCOUNTING)

SUBJECT: Audit Report on Data Supporting the Environmental Liability Line Item on the FY 1999 DoD Financial Statements (Project No. D1999FH-0082)

We concur with recommendation 1 of the draft report on DoD's FY 1999 Financial Statements. We are going to update the "Management Guidance for Defense Environmental Restoration Program" this calendar year. The update will reflect the recommendations made in the Inspector General report.

My point of contact is Andrew Porth, (703) 695-3329.

Sherri W. Goodman  
Deputy Under Secretary of Defense  
(Environmental Security)

Environmental Security



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## **Audit Team Members**

The Finance and Accounting Directorate, Office of the Assistant Inspector General for Auditing, DoD, prepared this report.

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